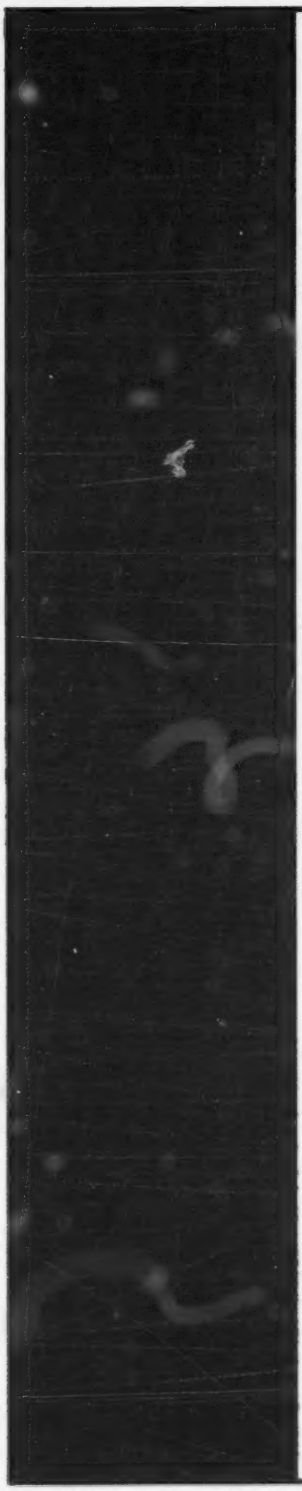

Newfoundland
Labrador

Government of Newfoundland and Labrador
Department of Finance

Newfoundland and Labrador Municipal Financing Corporation

Annual Report

March 31, 2015

Newfoundland and Labrador Municipal Financing Corporation
Annual Report
March 31, 2015

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September 28, 2015

Honourable Ross Wiseman
Minister of Finance
Government of Newfoundland and Labrador
Confederation Building
St. John's, NL
A1B 4J6

Dear Minister Wiseman:

In accordance with Section 13 of the *Municipal Financing Corporation Act,* section 9 of the *Transparency and Accountability Act* and on behalf of the Board of Directors, it is my pleasure to submit the annual report of the Newfoundland and Labrador Municipal Financing Corporation (NMFC) summarizing the Corporation's activities for the fiscal year ended March 31, 2015.

NMFC was established to consolidate the long-term borrowing programs of all municipalities in one central Crown agency. The proceeds of these borrowings were then used to provide long-term financing to meet the capital requirements of municipalities. In 2005-06, Government decided to no longer finance its portion of municipal capital projects through NMFC as most municipalities finance their share independently through financial institutions. Consequently, NMFC is in the process of winding up its operations. This report outlines the progress made in 2014-15 on the collection of outstanding receivables and payment of outstanding debenture debt.

The Board of Directors has approved the financial statements and other information contained in this annual report, and the Board is accountable for the results reported herein.

Sincerely,

Donna Brewer
Chair of the Board

CORPORATE OVERVIEW

Overview

The Newfoundland and Labrador Municipal Financing Corporation ("NMFC") was established in 1964 and operates pursuant to the provisions of the *Municipal Financing Corporation Act*. NMFC operates with a March 31 fiscal year end and the results of its activities are fully consolidated in the Province's annual financial statements.

Mandate

NMFC was established to consolidate the long-term borrowing programs of all municipalities in one central Crown agency. The proceeds of these borrowings were then used to provide long-term financing to meet the capital requirements of municipalities. As most municipal projects were cost shared with the Province, the financing provided was recovered partially from the municipality with the balance, representing the Province's share, paid by the Department of Municipal and Intergovernmental Affairs.

However, NMFC's mandate and role evolved over time to a situation whereby most municipalities were capable of financing their capital programs independently through financial institutions, primarily banks. The NMFC continued to borrow to provide financing for the Provincial share of capital projects for a period of time but, in 2005-06, Government decided it would no longer finance its portion of municipal capital projects but would fund it directly through annual budgetary allocations. Consequently, the NMFC discontinued its capital markets borrowing program and will wind-up operations when it collects its outstanding loans receivable and repays its outstanding debenture debt.

Primary Clients and Stakeholders

The Board's primary responsibility is to Government by carrying out functions related to the wind-up of operations.

Board Representation and Accountability

The affairs of NMFC are overseen by a Board of Directors appointed by the Lieutenant Governor in Council. All Board members are employees of the Province with the position of Chair held by the Deputy Minister of Finance. The Board meets at least annually to approve its Annual Financial Statements and Annual Report, both of which are then tabled in the House of Assembly by the Minister of Finance. The members of the Board as at March 31 and their positions were as follows:

Ms. Donna Brewer (Chair)
Deputy Minister of Finance

Mr. Alastair O'Rielly
Deputy Minister of Business, Tourism, Culture and Rural Development

Ms. Colleen Janes
Deputy Minister of Municipal Affairs
Department of Municipal and Intergovernmental Affairs

Assistant Deputy Minister of Taxation and Fiscal Policy
Department of Finance
Position Vacant at March 31, 2015

Mr. Paul Myrden (Secretary)
Director of Debt Management
Department of Finance

Sources of Funding

The NMFC has traditionally been self-supporting from a funding perspective, primarily through matching the terms of its borrowing program to the lending program for municipal capital works projects. The NMFC has independent banking arrangements, including facilities to provide short-term financing of cash flow deficiencies and investment of temporary cash surpluses. The Corporation's day-to-day affairs are managed by employees of the Department of Finance and the NMFC is billed quarterly by the Province for reimbursement of these expenses on a cost recovery basis.

Operational and Corporate Information

NMFC has no direct employees as the day-to-day affairs are administered by employees of the Department of Finance. On a quarterly basis, the Province invoices NMFC for its share of the salary costs of the employees who are involved in its administration. Contact information is as follows:

Mailing Address:

Newfoundland and Labrador
Municipal Financing Corporation
c/o Department of Finance
Confederation Building
East Block, Main Floor
P. O. Box 8700
St. John's, NL
A1B 4J6

Office Location:

Debt Management Division
Department of Finance
Confederation Building
East Block, Main Floor
Telephone: (709)-729-6686
Fax: (709) 729-2070

Departmental Website:

www.gov.nl.ca/fin

SHARED COMMITMENTS

An important issue for the Corporation, and the Province as guarantor of the Corporation's debenture debt, is the level of municipal loan arrears. Loan arrears at March 31, 2015 amounted to $2.7 million (2014 - $3.0 million). Historically, the Corporation collected a significant amount of arrears through the interception of municipal operating grants and from allocations from a Reserve Fund established with the Corporation and funded by the Province to assist towns most in need.

During the 2009-10 year, the Corporation reached an agreement with the Department of Municipal and Intergovernmental Affairs (MIGA) on a strategy to reduce and ultimately eliminate arrears on municipal loans. As part of this agreement, MIGA negotiates repayment arrangements with communities in arrears and provide the Corporation with periodic direction on the application of the Reserve Fund to individual accounts in arrears.

During fiscal year 2014-15, $29,000 in late fees relating to six municipalities was allocated from the Reserve Fund and applied to their arrears, leaving a balance in the Fund of $4.18 million.

HIGHLIGHTS AND ACCOMPLISHMENTS

Government has decided that the Corporation will no longer be used as a vehicle to finance the Province's share of the cost of municipal capital projects. Since most of the Province's municipalities already arrange long-term financing from banks and other financial institutions, the Corporation is in the process of winding up operations as it collects the loan portfolio and retires its debenture debt and this process continued during the fiscal year.

Collection of outstanding loans receivable in 2014-15 amounted to $11.6 million as the Corporation's loan portfolio was reduced from $37.5 million to $25.9 million. During the same period, outstanding accounts receivable, consisting of arrears on loan payments, decreased from $3.0 million to $2.7 million.

The net debenture debt of the Corporation decreased from $25.6 million to $18.0 million due to loan repayments of $7.6 million during the year.

REPORT ON PERFORMANCE

Progress on Strategic Priorities

As a result of a Government policy decision, NMFC discontinued its capital markets borrowing program several years ago with any subsequent municipal requirements to be met through the annual budgetary process. Consequently, NMFC is currently in the process of gradually winding down its operations through the collection of its outstanding loans receivable and retirement of its remaining debenture debt as it matures. This activity was the focus of NMFC's 2014-17 Activity Plan. As detailed below, NMFC has met its collection and repayment priorities for 2014-15.

Objective:

By March 31, 2015, NMFC will have executed the collection of loans receivable and payment of debenture debt in accordance with the schedule of planned payments and collections for the fiscal year 2014-15.

Objective for Fiscal Year	Debt Maturities	Loan Collections
	($ thousands)	($ thousands)
2014-15	$7,566	$11,630

Measure: Net balances of outstanding loans receivable and debenture debt payable reduced by planned amounts.

Indicators (amounts in thousands):

- Net outstanding loans to municipalities reduced by $11,630.
- Net outstanding debenture debt reduced by $7,566.

Results of 2014-15 Objective (amounts in thousands):

- Net outstanding loans to municipalities reduced by $11,630.
- Net outstanding debenture debt reduced by $7,566.

2014-15 objective of reducing net balances of outstanding loans receivable and debenture debt payable have been met.

Objective – 2015-16:

By March 31, 2016, NMFC will have executed the collection of loans receivable and payment of debenture debt in accordance with planned payment and collections for the fiscal year 2015-16.

Objective for Fiscal Year	Debt Maturities	Loan Collections
	($ thousands)	($ thousands)
2015-16	$5,666	$9,296

Measure: Net balances of outstanding loans receivable and debenture debt payable reduced by planned amounts.

Indicators (amounts in thousands):

- Net outstanding loans to municipalities reduced by $9,296.
- Net outstanding debenture debt reduced by $5,666.

OPPORTUNITIES AND CHALLENGES

The primary opportunity for the upcoming year will be the continuing implementation of the strategy agreed to with MIGA in 2009-10 to address outstanding municipal arrears as detailed in the Shared Commitments section.

FINANCIAL STATEMENTS

Management's Responsibility for Financial Statements

The financial statements of the Newfoundland and Labrador Municipal Financing Corporation are the responsibility of management and have been prepared in accordance with Canadian public sector accounting principles. The financial information presented elsewhere in the Annual Report is consistent with the financial statements and the underlying information from which the financial statements were prepared.

The Auditor General of Newfoundland and Labrador, appointed as the external auditor under the *Municipal Financing Corporation Act*, performed an audit on the financial statements in accordance with Canadian generally accepted auditing standards. The Auditor's Report attached to the financial statements outlines the scope of the examination and contains the Auditor General's opinion on the Corporation's financial statements.

AUDITOR'S REPORT & AUDITED FINANCIAL STATEMENTS

The audited Financial Statements are attached.

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION

FINANCIAL STATEMENTS

MARCH 31, 2015

Office of the Auditor General

Management's Report

Management's Responsibility for the Newfoundland and Labrador Municipal Financing Corporation Financial Statements

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards and the integrity and objectivity of these statements are management's responsibility. Management is also responsible for all of the notes to the financial statements, and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that transactions are properly authorized, assets are safeguarded and liabilities are recognized.

Management is also responsible for ensuring that transactions comply with relevant policies and authorities and are properly recorded to produce timely and reliable financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises these responsibilities through the Board. The Board reviews external audited financial statements yearly.

The Auditor General conducts an independent audit of the annual financial statements of the Corporation, in accordance with Canadian generally accepted auditing standards, in order to express an opinion thereon. The Auditor General has full and free access to financial management of the Newfoundland and Labrador Municipal Financing Corporation.

On behalf of the Newfoundland and Labrador Municipal Financing Corporation.

Donna Brewer, CPA, CA
Deputy Minister of Finance

Paul Myrden, CPA, CA
Director, Debt Management

AUDITOR GENERAL
of Newfoundland and Labrador

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Newfoundland and Labrador Municipal
Financing Corporation
St. John's, Newfoundland and Labrador

Report on the Financial Statements

I have audited the accompanying financial statements of the Newfoundland and Labrador Municipal Financing Corporation which comprise the statement of financial position as at March 31, 2015, the statements of operations, change in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

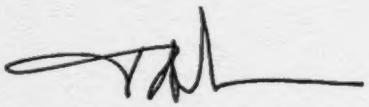
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Independent Auditor's Report (cont.)

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Newfoundland and Labrador Municipal Financing Corporation as at March 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.



TERRY PADDON, CPA, CA
Auditor General

July 16, 2015
St. John's, Newfoundland and Labrador

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION
STATEMENT OF FINANCIAL POSITION
As at March 31

	2015	2014
	(000's)	(000's)
FINANCIAL ASSETS		
Cash	$ 83	$ 104
Portfolio investments (Note 3)	9,985	4,666
Accounts receivable	2,739	2,998
Accrued interest receivable	58	116
Loans receivable (Note 4)	25,904	37,533
	38,769	45,417
LIABILITIES		
Accounts payable and accrued liabilities	1	36
Accrued interest payable	25	54
Debenture debt (Note 5)	18,064	25,630
Reserve fund (Note 6)	4,181	4,210
	22,271	29,930
Net financial assets	16,498	15,487
NON-FINANCIAL ASSETS		
Deferred charges (Note 7)	20	37
Accumulated surplus	$ 16,518	$ 15,524

The accompanying notes are an integral part of these financial statements.

Signed on behalf of the Board of Directors:

Chairperson **Director**

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION
STATEMENT OF OPERATIONS
For the Year Ended March 31

	2015 Budget	2015 Actual	2014 Actual
	(000's) (Note 10)	(000's)	(000's)
REVENUES			
Interest on loans to municipal corporations	$ 2,352	$ 2,352	$ 3,270
Interest on portfolio investments	88	88	35
	2,440	2,440	3,305
EXPENSES			
Administrative and miscellaneous	113	94	134
Amortization of deferred charges:			
Issue expenses on debenture debt	11	12	15
Premiums and discounts on debenture debt	5	5	7
Interest on long-term debt	1,335	1,335	1,820
	1,464	1,446	1,976
Annual surplus	976	994	1,329
Accumulated surplus, beginning of year	15,524	15,524	14,195
Accumulated surplus, end of year	$ 16,500	$ 16,518	$ 15,524

The accompanying notes are an integral part of these financial statements.

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION
STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
For the Year Ended March 31

	2015 Budget	2015 Actual	2014 Actual
	(000's) (Note 10)	(000's)	(000's)
Annual surplus	$ 976	$ 994	$ 1,329
Use of deferred charges	16	17	22
Increase in net financial assets	992	1,011	1,351
Net financial assets, beginning of year	15,487	15,487	14,136
Net financial assets, end of year	$ 16,479	$ 16,498	$ 15,487

The accompanying notes are an integral part of these financial statements.

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION
STATEMENT OF CASH FLOWS
For the Year Ended March 31

	2015	2014
	(000's)	(000's)
Operating transactions		
Annual surplus	$ 994	$ 1,329
Adjustment for non-cash items		
Accrued interest income on coupons	-	(3)
Amortization of issue expenses on debenture debt	12	15
Amortization of premiums and discounts on debenture debt	5	7
	1,011	1,348
Change in non-cash working capital	253	348
Cash provided from operating transactions	1,264	1,696
Investing transactions		
Portfolio investments	(5,358)	(4,600)
Portfolio investment - coupons redeemed	39	164
Loan payments received from municipal corporations	11,629	14,156
Cash provided from investing transactions	6,310	9,720
Financing transactions		
Retirement of debenture debt	(7,566)	(9,816)
Reserve fund allocations made	(29)	(43)
Cash applied to financing transactions	(7,595)	(9,859)
(Decrease in cash) increase in cash/decrease in bank indebtedness	(21)	1,557
Cash (bank indebtedness), beginning of year	104	(1,453)
Cash, end of year	$ 83	$ 104

The accompanying notes are an integral part of these financial statements.

1. Nature of operations

The Newfoundland and Labrador Municipal Financing Corporation (the Corporation) is established under the *Municipal Financing Corporation Act*. The Corporation was created to provide long-term financing for the capital requirements of municipal corporations by the issuance of its securities, and relending the funds to municipal corporations. As described in note 12, the Corporation is undergoing a planned wind down of its operations. The Corporation's affairs are managed by a Board of Directors appointed by the Lieutenant-Governor in Council. All board members are full-time employees of the Province of Newfoundland and Labrador (the Province).

The Corporation is a Crown entity of the Province and as such is not subject to Provincial or Federal income taxes.

2. Summary of significant accounting policies

(a) Basis of accounting

The Corporation is classified as an Other Government Organization as defined by Canadian Public Sector Accounting Standards (CPSAS). These financial statements are prepared by management in accordance with CPSAS for provincial reporting entities established by the Canadian Public Sector Accounting Board (PSAB). The Corporation does not prepare a statement of remeasurement gains and losses as the Corporation does not enter into relevant transactions or circumstances that are being addressed by this statement. Outlined below are the significant accounting policies followed.

(b) Financial instruments

The Corporation's financial instruments recognized on the statement of financial position consist of cash, portfolio investments, accounts receivable, accrued interest receivable, loans receivable, accounts payable and accrued liabilities, accrued interest payable and debenture debt. The Corporation generally recognizes a financial instrument when it enters into a contract which creates a financial asset or financial liability. Financial assets and financial liabilities are initially measured at cost, which is the fair value at the time of acquisition.

The Corporation subsequently measures all of its financial assets and financial liabilities at cost or amortized cost. Financial assets measured at cost include cash, accounts receivable, accrued interest receivable, and loans receivable. Portfolio investments are measured at cost or amortized cost as disclosed in note 3. Financial liabilities measured at cost include accounts payable and accrued liabilities and accrued interest payable. Debenture debt is measured at amortized cost as disclosed in note 5.

2. Summary of significant accounting policies (cont.)

(b) Financial instruments (cont.)

The carrying values of cash, portfolio investments, accounts receivable, accrued interest receivable, accounts payable and accrued liabilities and accrued interest payable approximate current fair value due to their nature and/or the short-term maturity associated with these instruments. The carrying value of loans receivable and debenture debt is considered to approximate market value.

Interest attributable to financial instruments is reported in the statement of operations.

(c) Cash

Cash includes cash in bank.

(d) Bank indebtedness

Bank indebtedness includes draw downs on the Corporation's operating credit facility, net of cash in bank.

(e) Premiums, discounts and issue expenses on debenture debt

Premiums, discounts and issue expenses are deferred and amortized on a straight-line basis over the life of the debenture issue to which they relate. In the case of the early retirement of debenture debt, a proportionate amount of the deferred balance is included with the gain or loss in the determination of net income for the period.

(f) Portfolio investments

Portfolio investments include Government of Canada coupons and other short-term portfolio investments at amortized cost and term deposits recorded at cost.

(g) Loans receivable

The Corporation records loans receivable at amortized cost. Options exist for the recovery from the Province of any defaults by municipal corporations and as such no allowance for doubtful accounts has been provided. Interest is accrued on loans receivable to the extent it is deemed collectible.

2. Summary of significant accounting policies (cont.)

(h) Accounts receivable

Accounts receivable consists of arrears (principal and interest) on loans receivable along with interest charged on the arrears. The Corporation ceased charging interest on arrears in November 2009.

(i) Revenues

Revenues are recognized in the period in which the transactions or events occurred that gave rise to the revenues. All revenues are recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable.

Interest income is accounted for using the effective interest method for interest on portfolio investments and interest on loans receivable. Recognition of interest is in accordance with the terms of the original loan agreement.

(j) Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is recorded as an expense in that year.

The Corporation is administered by the Department of Finance. Expenses related to salaries are paid directly by the Department and reimbursed by the Corporation and reflected in these financial statements.

(k) Measurement uncertainty

The preparation of financial statements in conformity with CPSAS requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of the revenues and expenses during the period. Items requiring the use of significant estimates include collectability of loans receivable.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ from these estimates.

3. Portfolio investments

Portfolio investments consist of 4 Government of Canada coupons that were purchased on January 26, 2001 and November 15, 2002, and mature between June 1, 2015 and December 1, 2016. Settlement values of these securities range from $1,253 to $2,885 with a total cost of $13,565 (2014 - $32,083), while maturity values range from $2,980 to $5,649 and have a total maturity value of $28,556. In addition, two short-term investments were purchased from the Bank of Nova Scotia. On March 17, 2015 a Bank Discount Note at a cost of $7,964,960 maturing on September 22, 2015 and on March 31, 2015 a Bankers Acceptance at a cost of $1,992,660 maturing on September 15, 2015 were purchased. The maturity value of these other portfolio investments is $10,000,000. The portfolio investments are valued as follows:

	2015 (000's)	2014 (000's)
Portfolio investments - coupons at cost	$ 14	$ 32
Amortization of discount on portfolio investments	14	34
	28	66
Other portfolio investments	9,957	4,600
	$ 9,985	$ 4,666

4. Loans receivable

As at March 31, 2015, loans receivable from municipal corporations were $25,903,726 (2014 - $37,533,434). Interest rates range from 6.375% to 12.000%.

Loans to municipal corporations are made on the security of their debentures. Options exist for the recovery from the Province of any defaults by municipal corporations. Therefore, no allowance for doubtful accounts has been provided.

Principal payments receivable are as follows:

Year	Amount (000's)
2016	9,297
2017	6,980
2018	4,620
2019	3,115
2020	1,892
	$ 25,904

5. Debenture debt

The Corporation's debenture debt is unconditionally and fully guaranteed as to principal and interest by the Province. Details of debt outstanding are as follows:

Series	Remaining Term	Interest Rate	March 31 2015	March 31 2014	
		%	(000's)	(000's)	
MFC-40			$ -	$ 1,000	
MFC-43	Sep 20, 2015-16	6.375 - 6.500	4,000	6,000	(a)
MFC-44	Mar 15, 2016-17	6.125	2,000	3,000	(b)
MFC-47	Mar 17, 2016-19	5.000 - 5.200	5,064	6,330	(c)
MFC-48	Mar 29, 2016-20	5.000 - 5.200	7,000	9,300	(d)
Total			$ 18,064	$ 25,630	

(a) MFC-43: On September 20 of each year, the Corporation is to redeem $2,000,000 in the years 2015 to 2016 inclusive.

(b) MFC-44: On March 15 of each year, the Corporation is to redeem $1,000,000 in the years 2016 to 2017 inclusive.

(c) MFC-47: On March 17 of each year, the Corporation is to redeem $1,266,000 in the years 2016 to 2019 inclusive.

(d) MFC-48: On March 29 of each year, the Corporation is to redeem $1,400,000 in the years 2016 to 2020 inclusive.

Estimated debenture maturities are as follows:

Year Ending March 31	Debenture Maturities (000's)
2016	5,666
2017	5,666
2018	2,666
2019	2,666
2020	1,400
	$ 18,064

6. Reserve fund

The Province has historically funded a reserve fund established to mitigate arrears with respect to municipal loans. The reserve fund is allocated as the Department of Municipal and Intergovernmental Affairs concludes negotiations with various municipal corporations with respect to restructuring debt due to the Corporation.

The year end reserve fund balance is as follows:

	2015 (000's)	2014 (000's)
Reserve fund, beginning of year	$ 4,210	$ 4,253
Less: funds allocated during year	29	43
Reserve fund, end of year	$ 4,181	$ 4,210

7. Deferred charges

	2015 (000's)	2014 (000's)
Issues expenses on debenture debt	$ 14	$ 26
Premiums and discounts on debenture debt	6	11
	$ 20	$ 37

8. Financial risk management

The Corporation recognizes the importance of managing risks and this includes policies, procedures and oversight designed to reduce risks identified to an appropriate threshold. The risks that the Corporation is exposed to through its financial instruments are credit risk, liquidity risk and market risk. There was no significant change in the Newfoundland and Labrador Municipal Financing Corporation's exposure to these risks or its processes for managing these risks from the prior year.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Corporation's main credit risk relates to cash, portfolio investments, accounts receivable, accrued interest receivable and loans receivable. The Corporation's maximum exposure to credit risk is the carrying amounts of these financial instruments. The Corporation is not exposed to significant credit risk with its cash because this financial instrument is held with a Chartered Bank. The Corporation is not exposed to significant credit risk with portfolio investments or accrued interest receivable because of their nature.

8. Financial risk management (cont.)

Credit risk (Cont.)

The Corporation is also not exposed to significant credit risk with accounts receivable (arrears on loans receivable) and loans receivable since options exist for the recovery from the Province of any defaults by municipal corporations. The Corporation is also not exposed to significant credit risk from accounts receivable, accrued interest receivable and loans receivable due to the Reserve Fund provided by the Department of Municipal and Intergovernmental Affairs.

Liquidity risk

Liquidity risk is the risk that the Corporation will be unable to meet its contractual obligations and financial liabilities. The Corporation's exposure to liquidity risk relates mainly to its accounts payable and accrued liabilities, accrued interest payable and debenture debt. The Corporation manages liquidity risk by monitoring its cash flows and ensuring that it has sufficient resources available to meet its financial liabilities. The Corporation's debenture debt is long-term with fixed repayment terms as outlined in note 5. In addition, the Corporation has access to an operating credit facility which allows draw downs to a maximum of $3,000,000. As at March 31, 2015, the Corporation had drawn down $0 on its operating credit facility.

Market risk

Market risk is the risk that the fair value or expected future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency (foreign exchange) risk, interest rate risk and other price risk. The Corporation is not exposed to significant foreign exchange or other price risk. In addition, the Corporation is not exposed to significant interest rate risk as its portfolio investments, loans receivable and debenture debt are at fixed interest rates.

9. Related party transactions

The Corporation is administered by employees of the Department of Finance. The salary costs of $82,122 (2014 - $92,164) for these employees are paid by the Department of Finance, reimbursed by the Corporation, and are reflected in these financial statements.

10. Budgeted figures

Budgeted figures have been provided for comparison purposes and have been derived from the estimates approved by the Director of Debt Management.

11. Non-financial assets

The recognition and measurement of non-financial assets is based on their service potential. These assets will not provide resources to discharge liabilities of the Corporation. For non-financial assets, the future economic benefit consists of their capacity to render service to further the Corporation's objectives.

12. Planned wind down of operations

In 2005-06, the Province of Newfoundland and Labrador decided to no longer refinance its portion of completed municipal capital projects through the Corporation as most municipalities finance their share independently through financial institutions. As a result, the Corporation will be winding up its operations over the coming years as it collects its loans receivable and repays its debenture debt.